

OPEN MEETING AGENDA ITEM

James M. Cavanaugh
Mayor



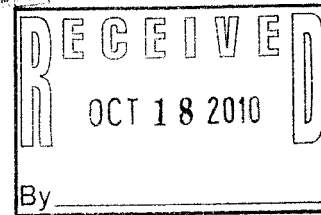
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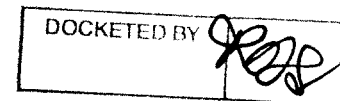


October 18, 2010

Arizona Corporation Commission
DOCKETED

OCT 18 2010

DOCKET CONTROL SUPERVISOR
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007



Re: Litchfield Park Service Company (LPSCO) (SW-01428A-09-0103; W-01427A-09-0104; W-01427A-09-0116; W-01427A-09-0120) - 0103, Liberty Water Co. - Public Comment from the City of Goodyear to the ACC

Dear Commissioners:

This letter constitutes the second formal written public comment by the City of Goodyear, Maricopa County, Arizona for the above cited rate case, and is offered in response to the findings and recommendations of Judge Nodes. Representatives of the City of Goodyear also presented the City's position before Judge Nodes on January 4, 2010.

As noted in the City's first formal public comment, the City is a customer of Litchfield Park Service Company ("LPSCO"). During calendar year 2009, the Goodyear Parks and Recreation Department paid LPSCO almost \$200,000 for irrigation water, potable water and wastewater services for the City's Parks, medians and rights of way within LPSCO's CC&N. This is in addition to the estimated \$35,000 per year the City paid LPSCO for these services at various City Public Safety Buildings located within LPSCO's CC&N. These expenditures, even under the existing rates, will be increasing as development continues in areas within LPSCO's CC&N. As a large user of LPSCO's services, the City has an interest in minimizing its expenditures for these services.

The rates being proposed represent a substantial increase over existing rates and are predicated on an unreasonably high rate of return of 8.7%. In its Exceptions to Recommended Opinion and Order docketed October 14, 2010, the City of Litchfield Park ("Litchfield Park") extensively discussed the factors that justify a lower rate or return, which include:

- Magnitude of the rate relief being requested
- LPSCO's decision to delay filing for rate relief, which resulted in new plant additions and updates, repairs and modifications for certain of those same facilities being included in the determination of the new rates

Office of the Mayor

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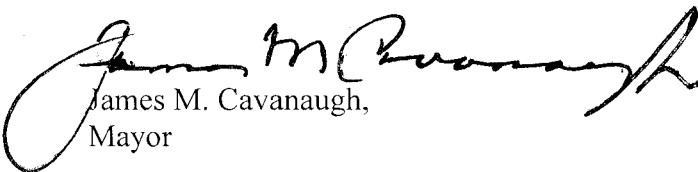
- The capital structure of the company, which favors equity (80%) over debt (20%) at a time when debt would be a less expensive source of capital and both RUCCO and ACC Staff recognize that there has been no adjustment for LPSCO's equity weighted capital structure
- The complexity of the operational structure of the company that allows various expenditures that ought not be considered in determining the rate of return, such as contributions and sporting event tickets, costs of the holding company that owns LPSCO (including costs associated with being listed on the Toronto Stock Exchange)
- The lack of a written policy regarding capitalizing versus expensing expenditures on the plant, which results in inappropriate expenditures being considered
- The dire economic condition facing the State of Arizona
- The general need to consider the customer's interests

The City agrees with Litchfield Park that all of these factors support a lower rate of return. Indeed, LPSCO, as a utility with a monopoly over a certain geographic area, presents minimal investment risks. Yet, the proposed rate of return far exceeds the rates of return on investments that carry substantially more risk.

Not only is the proposed rate increase excessive, but the proposed timing for the implementation of the rate increases creates undue burdens on the City of Goodyear and its residents because of the inability to budget and plan for the pending increases. The City of Goodyear does not have a source of unallocated revenue immediately available to cover the additional costs it will incur if the Commission approves the proposed rates. Instead, the City, like its residents, will either need to raise additional revenues or cut existing expenditures to pay the increased costs. Implementing either requires some lead time. If the Commission is so disposed to approve the proposed rate increases, the City respectfully requests that the increases be phased in over a three year period.

Sincerely,

CITY OF GOODYEAR



James M. Cavanaugh,
Mayor

cc: Roric Massey, City Attorney
Charles McDowell, Public Works Director
Jerry Postema, Public Works Deputy Director
David Iwanski, Water Resources Manager
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